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1974
ANNUAL REPORT

CANADIAN CANNERS LIMITED

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS

L. M. Crandall	Pembroke, Ontario
W. I. Drynan	Hamilton, Ontario
Alfred W. Eames, Jr.	San Francisco, California
Richard Fox, C.A.	Hamilton, Ontario
L. H. Johnston, F.C.A.	Hamilton, Ontario
Richard G. Landis	San Francisco, California
J. Y. Massey	Hamilton, Ontario
A. L. Nelson	Hamilton, Ontario
Leonard A. Philip	Toronto, Ontario
W. S. Sewell, Q.C.	Toronto, Ontario
Richard H. Ward	San Francisco, California
Ross B. Yerby	San Francisco, California

OFFICERS

Ross B. Yerby	Chairman of the Board
L. H. Johnston	President and Chief Executive Officer
Richard Fox	Vice-President—Corporate Development
W. G. Lister	Vice-President—Treasurer and Controller
J. Y. Massey	Vice-President—Marketing
A. L. Nelson	Vice-President—Production
D. W. Munn	Secretary
C. A. Barnes	Assistant Secretary

HEAD OFFICE

44 Hughson Street South, Hamilton, Ontario L8N 3K6

SUBSIDIARY COMPANIES

Aylmer Foods Warehousing Limited
Boese Foods Limited
Canners Machinery Limited
Duncan Lithographing Company Limited
The Pyramid Canners Limited
St. Williams Preservers Limited
Wagstaffe Limited
Walmer Transport Company Limited

REGISTRAR AND TRANSFER AGENTS

Royal Trust Company, Toronto and Montreal

AUDITORS

Price Waterhouse & Co.

ANNUAL MEETING

October 3, 1974, 10:00 a.m. (E.D.S.T.),
The Royal Connaught Hotel, Hamilton, Ontario

To Our Shareholders and Employees

The fiscal year 1974 saw further improvement in the financial performance of Canadian Cannery Limited and Subsidiaries. The consolidated sales volume was \$85,348,000 compared with \$73,197,000 in the previous year, which is an increase of 16.6%. The net earnings were \$2,808,000 or \$2.00 per share, compared with \$2,232,000 or \$1.59 per share for the prior year. The return per dollar of sales improved from 3.0¢ for fiscal 1973 to 3.3¢ for fiscal 1974.

During the past fiscal year, the Company paid two quarterly dividends at 10¢ per share and two quarterly dividends at 18¼¢ per share on the Class A shares. Since the date of issue, October 1, 1956, no dividends have been declared on the Class B shares, substantially all of which are owned by Del Monte Corporation. Class A and Class B shareholders are entitled to cumulative dividends at the rate of 75¢ per share per annum. As of June 30, 1974, accumulated but undeclared dividends were \$819,000 on Class A shares and \$12,464,000 on Class B shares.

It is gratifying to be able to report continuing improvement in our operations. The return on shareholders' equity has improved from 7.0% to 8.2%. Improvement of the return on shareholders' equity to a level in excess of 10% is a continuing objective. The economic environment of rapidly rising costs has created the need for a higher level of earnings to supply sufficient funds for the replacement of

equipment, and for additional plant and equipment facilities. Our requirement for capital funds to provide the facilities to sustain our sales growth is increasing significantly. It is essential that our growth in earnings be sustained, and the return on shareholders' equity be further improved.

During fiscal 1974 cost increases and shortages of supplies of various kinds, including raw produce, and long delivery schedules placed considerable strain on operating performance. We encountered substantial increases in all the cost components of our 1973 seasonal packs which resulted in increased selling prices. The combination of selling price increases and the increased sales movement of AYLMEER and DEL MONTE products provided the improvement in our earnings.

During the past winter and spring, a number of product line shortages occurred in our industry. These resulted from two years of less than normal packs of these items. While our Company experienced shortages in some products, we were able to maintain and increase our overall total sales volume. Our year-end inventories were below the desirable level for many products, but it is anticipated that the 1974 seasonal packs will correct this position.

The cost of the 1974 seasonal pack of canned fruits and vegetables is expected to be higher than the 1973 cost by an average of 25% to 30%. The prices for raw

product, sugar, and other ingredients, and packaging materials, and interest and wage rates are all at record levels. To achieve our objective of further improving the rate of return on the Company operations, it will be necessary to reflect these cost increases in the selling prices of our 1974 packs.

In looking ahead, the food processing industry will encounter many challenges, amongst which are: compliance with the new Federal Consumer Packaging and Labelling Act and Regulations, conversion to the metric system, meeting changes in technology at the retail store checkout counter, and a problem which is of major concern to the entire business community and all Canadian consumers, the erosion of the value of the dollar through inflation. We believe the food industry can successfully meet these challenges and our Company's view is optimistic for the future of the food processing industry in Canada.

The growth and effectiveness of the operations of our Company are in large measure attributed to the efforts of our employees, and we wish to express our sincere appreciation for their support during the past year.

On behalf of the Board of Directors,

Ross B. Yerby, Chairman L. H. Johnston, President

Hamilton, Ontario,
July 25, 1974

Financial Highlights

	1974	1973
Sales	\$85,348,000	\$73,197,000
Net earnings	2,808,000	2,232,000
Per dollar of sales	3.3¢	3.0¢
Per Class A and B common share	2.00	1.59
Return on shareholders' equity	8.2%	7.0%
Dividends paid per Class A share57½	.40
Retained earnings	29,136,000	26,638,000
Working capital	21,568,000	18,299,000
Working capital ratio	2.3	2.0
Shareholders' equity	35,433,000	32,935,000

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Financial Position

May 31, 1974 May 31, 1973

Current Assets

Cash	\$ 65,000	\$ 65,000
Accounts receivable	8,163,000	6,752,000
Inventories (details on opposite page)	29,289,000	29,073,000
Costs allocable to future operations	890,000	1,440,000
	<u>38,407,000</u>	<u>37,330,000</u>

Current Liabilities

Bank and other advances	7,448,000	8,954,000
Accounts payable and accruals	8,211,000	7,053,000
Income and other taxes payable	1,009,000	1,694,000
Payments due within one year on long-term debt	83,000	1,283,000
Dividend payable on Class A common shares	88,000	47,000
	<u>16,839,000</u>	<u>19,031,000</u>

Working Capital

Fixed Assets (details on opposite page)	21,568,000	18,299,000
Other Assets (details on opposite page)	13,503,000	13,365,000
	<u>3,943,000</u>	<u>4,757,000</u>
	<u>39,014,000</u>	<u>36,421,000</u>

Deduct:

Long-term debt (exclusive of payments due within one year)		
Notes of subsidiary companies		
payable in varying amounts to 1977	183,000	266,000
Deferred income taxes	3,398,000	3,220,000
	<u>3,581,000</u>	<u>3,486,000</u>

Shareholders' Equity

Represented by:		
Capital stock (details on opposite page) (Note 3)	\$ 6,297,000	\$ 6,297,000
Retained earnings	29,136,000	26,638,000
	<u>\$35,433,000</u>	<u>\$32,935,000</u>

Approved on behalf of the Board

L. H. Johnston, Director
Ross B. Yerby, Director

Auditor's Report

To the Shareholders of Canadian Cannery Limited

We have examined the consolidated statement of financial position of Canadian Cannery Limited and its subsidiary companies as at May 31, 1974 and the consolidated statements of earnings and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at May 31, 1974 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, July 25, 1974.

Price Waterhouse & Co.,
Chartered Accountants.

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Details of Items in Accounts

	May 31, 1974	May 31, 1973
Inventories		
Valued at lower of cost and net realizable value		
Merchandise	\$15,986,000	\$16,446,000
Materials and supplies	13,303,000	12,627,000
	<u>\$29,289,000</u>	<u>\$29,073,000</u>
Fixed Assets		
At cost		
Land	\$ 728,000	\$ 717,000
Buildings	8,869,000	8,751,000
Machinery and other equipment	22,691,000	21,640,000
	<u>32,288,000</u>	<u>31,108,000</u>
Less: Accumulated depreciation	18,785,000	17,743,000
	<u>\$13,503,000</u>	<u>\$13,365,000</u>
Other Assets		
Mortgages and long-term receivables	\$ 700,000	\$ 1,514,000
Goodwill	3,243,000	3,243,000
	<u>\$ 3,943,000</u>	<u>\$ 4,757,000</u>
Capital Stock		
Class A common shares without nominal or par value		
Authorized — 1,000,000		
Issued — 468,137	\$ 2,099,000	\$ 2,099,000
Class B common shares without nominal or par value		
Authorized — 2,000,000		
Issued — 936,274	4,198,000	4,198,000
	<u>\$ 6,297,000</u>	<u>\$ 6,297,000</u>

Notes to Financial Statements

- 1) At May 31, 1974 Canadian Canners Limited and its subsidiary companies had long-term leases expiring in various years through 1994 covering land, buildings and equipment. The average annual rentals payable under these agreements are estimated at \$602,000 for 1975-76, \$406,000 for 1977-81, \$155,000 for 1982-94.
- 2) During the fiscal year ended May 31, 1974, the aggregate direct remuneration paid or payable by the Company to twelve directors as directors was \$7,000 (\$5,000 in 1973) and to eight officers as officers (5 of whom were directors) was \$175,000 (\$154,000 in 1973).
- 3) The holders of Class A common shares are entitled to cumulative cash dividends at the rate of 75¢ per share per annum in priority to any dividends on the Class B common shares. Dividends have been paid on the Class A common shares up to and including September 30, 1968 at the rate of 75¢ per share per annum and subsequently at the rate of 40¢ per share per annum until and including September 30, 1973. The Dividends subsequently paid have been at the rate of 75¢ per share per annum. Subject to the prior rights of the Class A common shares, the holders of Class B common shares are entitled to cash dividends accumulating from the date of issue on October 1, 1956 at the rate of 75¢ per share per annum. To June 30, 1974, the accumulated dividends not declared on Class A common shares amount to \$819,000 and on Class B common shares amount to \$12,464,000. After the Class A and B common shares have received payment of all accumulated dividends, Class A and B common shares share equally in any dividends in excess of 75¢ per share per annum.

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings and Retained Earnings

	Year Ended May 31 1974	1973
Sales and operating revenues	\$85,348,000	\$73,197,000
Costs and expenses		
Costs and expenses excluding items listed below	78,169,000	66,785,000
Depreciation	1,373,000	1,329,000
Interest on long-term debt	22,000	80,000
Other interest	1,026,000	771,000
Income taxes	1,950,000	2,000,000
	82,540,000	70,965,000
Net earnings	2,808,000	2,232,000
Retained earnings at beginning of year	26,638,000	24,593,000
	29,446,000	26,825,000
Dividends declared on Class A common shares	310,000	187,000
Retained earnings at end of year	\$29,136,000	\$26,638,000
Net earnings per share (Class A and B common combined) ..	\$ 2.00	\$ 1.59

Consolidated Statement of Source and Use of Funds

	Year Ended May 31 1974	1973
Source of Funds		
Earnings from operations	\$ 2,808,000	\$ 2,232,000
Depreciation	1,373,000	1,329,000
Deferred income taxes	178,000	(152,000)
Funds from operations	4,359,000	3,409,000
Proceeds from disposal of properties	114,000	87,000
Decrease in mortgages and long-term receivables	814,000	503,000
	5,287,000	3,999,000
Use of Funds		
Investment in fixed assets	1,625,000	1,285,000
Dividends declared on Class A common shares	310,000	187,000
Reduction of long-term debt	83,000	1,283,000
	2,018,000	2,755,000
Increase in Working Capital	\$ 3,269,000	\$ 1,244,000

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Ten Year Review of Financial Data

Figures in thousands except per share

	Twelve Months Ended May 31					Fifteen Months Ended May 31	Twelve Months Ended February 28 (29)			
	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
FOR THE YEAR										
Sales	\$85,348	73,197	64,078	58,582	54,663	68,028	53,677	52,251	50,568	47,954
Earnings from operations	2,808	2,232	1,263	809	692	754	1,175	1,172	1,796	1,593
Per dollar of sales	3.3¢	3.0¢	2.0¢	1.4¢	1.3¢	1.1¢	2.2¢	2.2¢	3.6¢	3.3¢
Per Class A and B common share	2.00	1.59	.90	.58	.49	.54	.84	.83	1.28	1.13
Net extraordinary gains	—	—	—	—	1,011	301	—	492	—	—
Net earnings	2,808	2,232	1,263	809	1,703	1,055	1,175	1,664	1,796	1,593
Per Class A and B common share	2.00	1.59	.90	.58	1.21	.75	.84	1.18	1.28	1.13
Return on shareholders' equity	8.2%	7.0%	4.2%	2.7%	6.0%	3.6%	4.4%	6.5%	7.4%	7.0%
Cash dividends paid	269	187	187	187	187	357	351	351	351	351
Per Class A common share57½	.40	.40	.40	.40	.76¼	.75	.75	.75	.75
Capital expenditures	1,625	1,285	1,224	1,342	1,331	1,452	915	2,039	2,097	1,333
Provision for depreciation	1,373	1,329	1,331	1,262	1,240	1,535	1,219	1,172	1,093	988
AT YEAR END										
Working capital	21,568	18,299	17,055	16,907	17,429	17,778	18,079	16,935	16,500	15,887
Working capital ratio	2.3	2.0	2.0	2.2	2.5	2.2	2.2	2.2	2.4	2.7
Net fixed assets	13,503	13,365	13,496	13,673	12,761	13,198	13,550	13,972	12,791	11,914
Long-term debt	183	266	1,549	2,634	2,694	3,144	5,319	5,805	4,625	4,940
Retained earnings	29,136	26,638	24,593	23,517	22,895	21,426	20,728	19,904	18,591	17,146
Shareholders' equity	35,433	32,935	30,890	29,814	29,192	27,723	27,025	26,201	24,888	23,443

